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SUBJECT: BURMA'S INFORMAL ECONOMY: COMMODITY TRADE

REF: A. RANGOON 327

[B](#). 03 RANGOON 1552

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

[1](#)1. (SBU) Summary: As noted in ref B, the gray and black markets help keep the Burmese people and government afloat in the rough seas of chronic economic mismanagement. However, little is clearly known about the size of these markets except for unsubstantiated assumptions that they are perhaps even as large as the formal economy. In an effort to try and quantify these anecdotes, this is the first of a series scrutinizing various sectors of the shadow economy. Because the black market is so vast, and because it is generally illegal and thus a very sensitive topic of discussion, we cannot claim these snapshots are definitive. However, perhaps they will give some clearer picture of what is meant when we say "Burma's informal economy."

[1](#)2. (SBU) This report looks some of the primary agricultural commodities that are smuggled out of Burma on a daily basis: rice, beans and pulses, and rubber. It also examines one of Burma's major smuggled imports: diesel fuel. All told, we estimate the illicit trade in these items to be around \$100 million, only 2 percent of total trade volume in 2004, but about 20 percent of the value of legal trade in these items. End summary.

Agricultural Trade: Rice

[1](#)3. (C) Burma remains largely an agricultural economy, with the vast majority of its people still tied to the land growing rice, beans and pulses, oil seeds, and a wide variety of other crops. Despite the Burma's reliance on agriculture, the sector is very underdeveloped, with little value added and very low quality exports. The agricultural sector is also still burdened by overregulation. Despite a half-hearted foray into privatization of the rice market in 2003, the GOB since January 2004 has re-asserted control over exports of rice and some other staples by banning their export altogether.

[1](#)4. (C) A large black market in agricultural products has evolved from the combination of an overwhelmingly agricultural economy, tight and capricious government export policies, a long tradition of smuggling and corruption among border officials, and strong demand for Burmese products in neighboring states (with porous borders). During CY 2004, when rice exports were technically barred, very reliable private statistics show the GOB itself exported -- or directed private firms to export -- around 82,500 metric tons of rice (mostly 25 percent broken) and 18,000 metric tons of broken rice. Most of these legal exports went to Bangladesh, with the rest going to African countries, Indonesia, Malaysia, and Singapore. According to a Burmese agricultural trade expert, the legal exports of rice in 2004 were sold for around \$195 or \$200 per metric ton, with most of the broken grains going for \$100 per ton, for the lowest quality, or \$165 per ton, for better varieties. Using these figures, the estimated gross revenue from legal rice exports in 2004 was about \$19 million.

[1](#)5. (C) However, the Burmese rice market in 2004 was particularly conducive to black market activity. As always, the demand from neighboring Bangladesh for rice and unhusked rice (paddy) was far higher than legal supply. Also, in 2004 the unexpected cutoff of legal exports in January led to sharp price drops for farmers -- who had produced more expecting to benefit from the liberalized export policy. Likewise, private exporters, who had purchased rice to export, were stuck with stocks when the reforms were suddenly reversed.

[1](#)6. (C) An expert on the rice trade admitted he did not know exactly how much went out of the country illegally in 2004, however, based on demand and supply assumptions he estimated smugglers took about 80,000 metric tons of rice and 40,000 metric tons of paddy to Bangladesh alone in 2004. He said that a little bit of rice was also smuggled into China this

year, but none was taken to Thailand (unlike some previous years). He estimated exporters got \$180-\$190 a metric ton for paddy and \$205-\$210 per ton for smuggled rice (buyers are willing to pay more for easier informal procurement across the border or by sea). Thus, the surmised value of illegally exported rice and paddy in 2004 to be around \$24 million, or 126 percent the estimated revenue from legally exported rice.

17. (C) Thus far in 2005, the GOB has given no indication it will allow private sector rice exports. However, exports by the government of aging stockpiles has increased significantly year-on-year. Nonetheless, with the near total ban in place, the dynamics for large-scale smuggling of rice remain.

Agricultural Trade: Beans and Pulses

18. (C) Though beans and pulses can be freely exported by the private sector, reliable private statistics show legal exports in CY 2004 fell to 800,000 metric tons, from 1 million metric tons in CY 2003, due to a soft primary export market -- India -- and stronger domestic prices. Using an estimate of \$280-\$300 per metric ton of beans and pulses, the total gross value of Burma's legal beans and pulses exports in 2004 was likely between \$224 million and \$240 million.

19. (C) China was the major destination for smuggled beans and pulses. Burma's road links to China are much better than those to India making smuggling large quantities of agricultural products more feasible. Chinese demand for certain types of Burma's beans and pulses is also significant. An agricultural trade specialist estimated that 120,000 metric tons of various beans and pulses were smuggled across Burma's border with China either outright or by way of underinvoicing by a legal exporter. According to the specialist, the Chinese often paid more than the market price for these products, so we can estimate the value of these illegally exported beans and pulses at more than \$36 million -- about 15-20 percent of legal exports.

110. (C) According to sources, the situation for Burma's beans and pulses appears unchanged in 2005. Exporters complain of soft legal export markets, and increasing intrusion by the GOB -- and affiliated businesses -- into the formal trade. Thus, we expect exporters to rely increasingly on a continued stream of illegal beans and pulses exports into China.

Rubber

111. (C) Burma is not a major global exporter of rubber, and the quality of its exports is low. However, the market value of the product, and the dominance of the black market, make it a notable commodity for this study. According to an agricultural trade specialist, because of GOB restrictions on rubber exports (lifted partially in late 2004) 50 percent of Burma's total rubber exports were smuggled in 2004. The illegally exported commodity, in basically raw form, goes from southern Burma to Malaysia (by ship to Penang) or overland to China. According to the specialist's estimates, in 2004 about 20,000 metric tons of raw rubber was smuggled. Assuming about \$1,250 per ton (the price earned by legal exporters), the gross value of the smuggled rubber was about \$25 million. Strangely, the expert reported, legal exports of rubber have picked up in 2005. Thus, the amount of smuggled rubber may decline in percentage terms this year.

Diesel Fuel

112. (C) On the import side, a large and important area of black market activity is diesel. The legal import of diesel, rigorously controlled by the Ministry of Livestock and Fisheries (reflecting the traditionally heavy usage of diesel by Burma's fishing fleet), was rife with corruption in 2004. Two ministry officials were caught and arrested after stealing 420,000 gallons of imported diesel fuel -- along with the 260 mln kyat (about \$290,000) entrusted to them by private importers. In addition the GOB, fearful of foreign exchange expenditures, regularly cut off imports of this essential product -- needed not only for vehicles, but also to fuel power generating turbines and the thousands of private generators used across the country. The result was a shortfall in predicted imports in 2004 of around 416,000 barrels -- despite an increase in diesel imports by around 20 percent (to about 4.8 million barrels) compared to CY 2003. Most of Burma's legal diesel imports came from Malaysia in CY 2004 and, according to press reports and estimates, importers paid around \$45-\$50 a barrel. Thus, the total value of legal imports of diesel in 2004 was \$216 million to \$240 million.

113. (C) The volume of illegally imported diesel is not well known. Likewise, the price of diesel fluctuated dramatically in 2004 so its value cannot be clearly characterized. Thus, we use a rough guess to assume the balance of the expected diesel imports (416,000 barrels) came informally -- from Malaysia by boat, either through Tanintharyi Division on the Andaman Sea or Rakhine State on the Bay of Bengal and that

buyers paid about \$50/barrel for smuggled diesel. This calculation puts the gross value of smuggled diesel at \$20.8 million.

14. (C) 2005 looks to be another banner year for diesel smugglers. Though energy shortages remain the norm in Rangoon and elsewhere, and diesel fuel retail prices are at historic highs, the GOB is focused solely on conserving hard currency. The government, banking on a half-baked campaign to use compressed natural gas (CNG) for vehicles, has made it clear it would import as little diesel as it can get away with in 2005. Likewise, the government has stopped refining for domestic use any of the roughly 340,000 barrels a month worth of crude oil coming from the condensate produced at the two major offshore natural gas fields -- Yadana and Yetagun. Finally, the GOB, apparently tired of paying foreigners for oil production, has announced it will allow no further foreign investment in onshore oil fields (ref A).

Comment: A Small Corner, But the Numbers Add Up

15. (C) These calculations are educated guesses about a tiny portion of the black market economy. However, even from these four products (rice, beans and pulses, rubber, and diesel) we see the value of black market activity topping \$105 million. While this is only 2 percent of the IMF's \$5 billion projected total trade volume for Burma FY 2004-05 (April-March), it is more than 20 percent of the value of legal trade in these items. We expect the proportion of black to white trade to increase dramatically when we look at high-value, heavily smuggled products such as gems, timber, and narcotics (septel). End comment.
Martinez